

**SPECIAL HANDLING**

No. 64-036  
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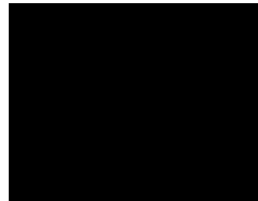
MEMORANDUM FOR THE RECORD

SUBJECT: Negotiations - Contract FI-5777 with Fairchild Space and Defense Systems

1. On 15 July 1963 the Contractor was authorized to proceed with the fabrication and delivery to the Government of 4 "A" Camera Subsystems in accordance with the "A" Program requirement specifications of 10 June 1963, as modified in SE meeting of 11 July 1963. It was specified that the contract would be a fixed price incorporating Air Force Basic Agreement No. AF 33 (657) 5087. The authorization to proceed was based on a directive from DNRO authorizing the procurement.

2. The Contractor submitted its first price proposal dated 6/5/63 for 4 "A" subsystems on the basis of Chinese Copy, that is to say the 4 "A" Systems were to be identical with those furnished to the Government on previous procurements when Fairchild was a subcontractor to IMSC. Fairchild's proposal was in the total amount of [REDACTED] and consisted of the following:

Hardware  
Spare Parts  
Field Service Support  
Data Reduction



The proposal included the following major elements:

Engineering Labor  
Factory Labor  
Materials  
Travel  
Security  
Engineering Overhead  
Factory Overhead  
G&A  
Profit



The Contractor quoted [REDACTED] overhead for field support labor, [REDACTED] G&A and [REDACTED] profit.

3. There was ample basis for comparison with audited records of the previous procurement through IMSC. Mr. Joseph Saitta, AF Resident Auditor at IMSC A/P, reviewed IMSC's subcontract records and the results reflected a unit cost of [REDACTED] for the 3 ARGON Camera Subsystems procured by IMSC which compared with a unit cost of [REDACTED] representing the unit cost of the current Fairchild proposal for 4 "A" Camera Subsystems. This

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appeared to be a very favorable reduction considering that the Fairchild proposal for 4 "A" subsystems was quoted fixed price whereas its quote to IMSC had been on a cost plus fixed fee basis.

4. A detailed analysis of the current proposal and the prior proposal, as made to IMSC, showed a favorable learning curve in nearly all elements of the quote.

5. Representatives of the Government and Fairchild met at the Fairchild Plant 15 August 1963 for the first negotiation. Present were for the Contractor; [REDACTED] Project Engineer; [REDACTED] Contract Negotiator - For the Government; [REDACTED] Contracting Officer; Mr. Saitta, Air Force Audit; [REDACTED] Program Office; [REDACTED] Program Office. The Contractor immediately pointed out a major problem in connection with the proposal; namely, the change in philosophy from Chinese Copy to modified "A" Camera System. The principal point here was that the new specifications required a six day mission as opposed to the four day mission on previous flights. In addition the new specifications call for flow-coating on all connections, X-ray, and the inclusion of the Reseau. The Contractor estimated that these changes from the Chinese Copy version would increase the price by [REDACTED]. The Contractor also requested Government consideration of an overhead rate problem facing the Contractor subsequent to its submission of the first proposal. The Contractor claimed that its overhead rates had gone from [REDACTED] in engineering from [REDACTED] in manufacturing and from [REDACTED] in G&A. These changes were investigated by Mr. Saitta who determined that the revised rates were currently being accepted by the Auditor General of the Air Force. The Contractor claimed that loss of a large contract was one of the major causes of the overhead increase. In addition the Air Force had gone to an annual basis whereas Fairchild had initially quoted on a six month rate basis. The Contractor requested that the Government not force it to undertake the job on the overhead rates initially quoted in the sense that this would result in a substantial loss to the Contractor.

6. On 21 August 1963 and subsequently on 25 August 1963 the parties again met in Los Angeles to continue negotiations. During the interim the Government representatives had reviewed and analyzed the Contractor's recommendations in considerable detail. After several offers and counter offers an agreement was reached with the Contractor for a total fixed price of [REDACTED]. In arriving at this price the Government approved the use of the revised overhead rates but reduced the profit to [REDACTED] and insisted that the new price include all of the changes claimed by the Contractor totaling [REDACTED]. In addition the fixed price was to include all necessary spare parts. It was agreed that field support would be handled as a separate contract and negotiated separately. The Government representatives were in agreement on the specifications and the work required to be performed by Fairchild. It was considered that the fixed price of [REDACTED] was very reasonable for the amount of work to be accomplished.

[REDACTED]  
Contracting Officer

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